

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2008

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Merritt Area Fire Department	County Missaukee
Fiscal Year End March 31, 2008	Opinion Date June 9, 2008	Date Audit Report Submitted to State June 11, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

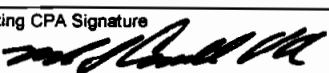
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.		Telephone Number 989-894-1040	
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Authorizing CPA Signature 		Printed Name Mark J. Campbell	Zip 48707
		License Number 1101007803	

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 9, 2008

To the Fire Board
Merritt Area Fire Department
Missaukee County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Merritt Area Fire Department, Missaukee County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Merritt Area Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Merritt Area Fire Department, Missaukee County, Michigan as of March 31, 2008, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2008

The Management's Discussion and Analysis report of the Merritt Area Fire Department covers the Fire Department's financial performance during the year ended March 31, 2008.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2008, totaled \$340,620.21 for governmental activities.

Overall revenues were \$79,581.57. Governmental activities had a \$446.69 decrease in net assets.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Fire Department and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Fire Department in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Fire Department as a whole using accounting methods used by private companies. The statement of net assets includes all of the Fire Department's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Fire Department are reported as governmental activities.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan
CONDENSED FINANCIAL INFORMATION
For the year ended March 31, 2008

	<u>Total Governmental Activities 2008</u>
Current Assets	102 472
Capital Assets	<u>386 180</u>
Total Assets	<u>488 652</u>
Current Liabilities	375
Non-current Liabilities	<u>147 657</u>
Total Liabilities	<u>148 032</u>
Net Assets:	
Invested in Capital Assets	238 523
Unrestricted	<u>102 097</u>
Total Net Assets	<u><u>340 620</u></u>

	<u>Total Governmental Activities 2008</u>
Program Revenues:	
Fees and Charges for Services	4 259
General Revenues:	
Appropriations From Other Local Units	73 043
Interest	<u>2 280</u>
Total Revenues	<u>79 582</u>
Program Expenses:	
Public Safety	71 211
Interest on Long-Term Debt	<u>8 817</u>
Total Expenses	<u>80 028</u>
Increase (Decrease) in Net Assets	(446)
Net Assets, April 1	<u>341 066</u>
Net Assets, March 31	<u><u>340 620</u></u>

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2008

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Fire Department's funds, focusing on significant (major) funds not the Fire Department as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Fire Department also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Fire Department has the following types of funds:

Governmental funds: All of the Fire Department's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Fire Department's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Fire Department's governmental activities include the General Fund.

FINANCIAL ANALYSIS OF THE FIRE DEPARTMENT AS A WHOLE

Net assets at March 31, 2008 consisted of \$238,523.16 invested in capital assets, net of related debt and \$102,097.05 unrestricted.

FINANCIAL ANALYSIS OF THE FIRE DEPARTMENT'S FUNDS

The General Fund pays for all of the Fire Department's fire operations which totaled \$65,071.64.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Fire Department's governmental activities invested \$0 in capital assets.

The Fire Department's governmental activities paid \$14,183.00 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Fire Department's revenue is based on taxable value which continues to increase.

CONTACTING THE FIRE DEPARTMENT'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the revenues it receives. If you have any questions concerning this report please contact the Merritt Area Fire Department at 2393 S. Merritt Road, Merritt, MI 49667.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2008

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	96 135 72
Due from other units	5 336 18
Accounts receivable	<u>1 000 00</u>
Total Current Assets	<u>102 471 90</u>
NON-CURRENT ASSETS:	
Capital Assets	691 983 68
Less: Accumulated Depreciation	<u>(305 803 52)</u>
Total Non-current Assets	<u>386 180 16</u>
TOTAL ASSETS	<u>488 652 06</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>374 85</u>
Total Current Liabilities	<u>374 85</u>
NON-CURRENT LIABILITIES:	
Contract payable	<u>147 657 00</u>
Total Non-current Liabilities	<u>147 657 00</u>
Total Liabilities	<u>148 031 85</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	238 523 16
Unrestricted	<u>102 097 05</u>
Total Net Assets	<u>340 620 21</u>
TOTAL LIABILITIES AND NET ASSETS	<u>488 652 06</u>

The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2008

		<u>Program Revenue</u>	<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Public safety	71 211 26	4 259 00	(66 952 26)
Interest on long-term debt	<u>8 817 00</u>	<u>-</u>	<u>(8 817 00)</u>
Total Governmental Activities	<u>80 028 26</u>	<u>4 259 00</u>	<u>(75 769 26)</u>
General Revenues:			
Appropriations from other local units			73 042 75
Interest			<u>2 279 82</u>
Total General Revenues			<u>75 322 57</u>
Change in net assets			(446 69)
Net assets, beginning of year			<u>341 066 90</u>
Net Assets, End of Year			<u>340 620 21</u>

The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2008

	<u>Total (General)</u>
<u>Assets</u>	
Cash in bank	96 135 72
Due from other units	5 336 18
Accounts receivable	<u>1 000 00</u>
Total Assets	<u><u>102 471 90</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	<u>374 85</u>
Total liabilities	<u>374 85</u>
Fund equity:	
Fund balance:	
Unreserved:	
Undesignated	<u>102 097 05</u>
Total fund equity	<u>102 097 05</u>
Total Liabilities and Fund Equity	<u><u>102 471 90</u></u>

The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2008

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	102 097 05
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	691 983 68
Accumulated depreciation	(305 803 52)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds	
Contract payable	<u>(147 657 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>340 620 21</u></u>

The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2008

	<u>Total (General)</u>
Revenues:	
Appropriations from other local units:	
Township of Butterfield	27 076 21
Township of Enterprise	19 474 61
Township of Aetna	7 750 50
Township of Holland	6 664 50
Township of West Branch	12 076 93
Charges for services	4 259 00
Interest	<u>2 279 82</u>
Total revenues	<u>79 581 57</u>
Expenditures:	
Public safety:	
Wages	9 800 00
Payroll taxes	749 70
Operating supplies	2 628 32
Professional services	195 00
Memberships and dues	119 40
Gasoline and oil	2 634 52
Repairs and maintenance	4 921 88
Insurance	14 800 00
Utilities	5 130 63
Training	100 00
Miscellaneous	992 19
Debt service	<u>23 000 00</u>
Total expenditures	<u>65 071 64</u>
Excess of revenues over expenditures	14 509 93
Fund balance, April 1	<u>87 587 12</u>
Fund Balance, March 31	<u>102 097 05</u>

The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2008

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 14 509 93

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(29 139 62)
Capital Outlay	-

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>14 183 00</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(446 69)</u></u>
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The accompanying notes are an integral part of these financial statements.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Merritt Area Fire Department, Missaukee County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Fire Department contain all the Fire Department funds that are controlled by or dependent on the Fire Department's executive or legislative branches.

The reporting entity is the Merritt Area Fire Department. As required by generally accepted accounting principles, these financial statements present the Fire Department as the primary government.

The Merritt Area Fire Department is a joint venture created in 1955 by Butterfield and Enterprise Townships. The Department was organized to better serve the citizens of both Townships as authorized by 1951 PA 35 as amended. The Department is under the control of a Board consisting of three members from each Township. The board members are appointed by the Township's boards. The board's duties are to oversee operations, maintain assets, develop budgets for participating Townships' approval and generally exercise on the Townships' behalf the powers granted by 1951 PA 88 as amended. Funding is provided by a millage levied on the member Townships. The Fire Department's boundaries include all of Butterfield and Enterprise Townships. In addition, the Department contracts to provide fire service to surrounding Townships.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Fire Department's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Fire Department reports one fund, the General Fund.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Fire Department. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

The Fire Department does not levy any property taxes.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Fire Department as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Vehicles and equipment	5-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Post-employment Benefits

The Fire Department provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Fire Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Fire Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Fire Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Fire Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Fire Department to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Department has designated one bank for the deposit of Fire Department funds. The investment policy adopted by the Fire Board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 3 – Deposits and Investments

The Fire Department's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>96 155 62</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	99 171 50
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>99 171 50</u>

The Fire Department did not have any investments as of March 31, 2008.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fire Department manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The financial institution pooled funds and the mutual funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Fire Department contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Fire Department's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Fire Department's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 4 – Capital Assets

Capital asset activity of the Fire Department's Governmental activities for the current year was as follows:

	Balance 4/1/07	Additions	Deletions	Balance 3/31/08
<u>Governmental Activities:</u>				
Land and improvements	50 700 00	-	-	50 700 00
Buildings and improvements	99 101 40	-	-	99 101 40
Vehicles and equipment	542 182 28	-	-	542 182 28
 Total	691 983 68	-	-	691 983 68
Accumulated Depreciation	(276 663 90)	(29 139 62)	-	(305 803 52)
Net Capital Assets	415 319 78	(29 139 62)	-	386 180 16

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 4/1/07	Additions	Deductions	Balance 3/31/08
Contract payable – fire truck	161 840 00	-	14 183 00	147 657 00
Total	161 840 00	-	14 183 00	147 657 00

On November 17, 2005, the Fire Department obtained a loan in the amount of \$175,000.00 from a bank to be used toward the purchase of a fire truck. The contract payable includes interest at the rate of 4.39% per annum and is due in ten annual installments, through January 1, 2016. The principal balance outstanding as of March 31, 2008 was \$147,657.00.

Note 6 – Deferred Compensation Plan

The Fire Department does not have a deferred compensation plan.

Note 7 – Pension Plan

The Fire Department does not have a pension plan.

Note 8 – Risk Management

The Fire Department is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Fire Department has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

MERRITT AREA FIRE DEPARTMENT
Missaukee County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Appropriations from other local units:				
Township of Butterfield	28 550 00	28 550 00	27 076 21	(1 473 79)
Township of Enterprise	21 975 00	21 975 00	19 474 61	(2 500 39)
Township of Aetna	7 420 00	7 420 00	7 750 50	330 50
Township of Holland	6 910 00	6 910 00	6 664 50	(245 50)
Township of West Branch	11 556 00	11 556 00	12 076 93	520 93
Charges for services	6 000 00	6 000 00	4 259 00	(1 741 00)
Interest	900 00	900 00	2 279 82	1 379 82
Total revenues	<u>83 311 00</u>	<u>83 311 00</u>	<u>79 581 57</u>	<u>(3 729 43)</u>
Expenditures:				
Public safety:				
Fire protection	60 150 00	60 150 00	42 071 64	(18 078 36)
Debt service	<u>23 000 00</u>	<u>23 000 00</u>	<u>23 000 00</u>	<u>-</u>
Total expenditures	<u>83 150 00</u>	<u>83 150 00</u>	<u>65 071 64</u>	<u>(18 078 36)</u>
Excess (deficiency) of revenues over expenditures	161 00	161 00	14 509 93	14 348 93
Fund balance, April 1	<u>25 000 00</u>	<u>25 000 00</u>	<u>87 587 12</u>	<u>62 587 12</u>
Fund Balance, March 31	<u>25 161 00</u>	<u>25 161 00</u>	<u>102 097 05</u>	<u>76 936 05</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 9, 2008

To the Fire Board
Merritt Area Fire Department
Missaukee County, Michigan

We have audited the financial statements of the Merritt Area Fire Department for the year ended March 31, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Merritt Area Fire Department in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Fire Board
Merritt Area Fire Department
Missaukee County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

The Fire Department's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Fire Department cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Fire Board Members understand these circumstances when performing their oversight responsibilities.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire Department's financial statements and this communication of these matters does not affect our report on the Fire Department's financial statements, dated March 31, 2008.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants